

**Quote of the week :** “Thirty years from now there will be a huge amount of oil - and no buyers. Oil will be left in the ground. The Stone Age came to an end, not because we had a lack of stones, and the oil age will come to an end not because we have a lack of oil.” This observation was made in a interview in 2000, & quoted by the Economist three year later, by none other than the legendary Sheikh Ahmed Zaki Yamani, a graduate from the University of Cairo & Harvard Law, who was Saudi Arabia’s Oil Minister from 1962 to 1986, i.e. for a decade before the First Oil Price Shock until the year in which the oil price cratered from US\$26.92 to US\$14.44 YoY in 1986, not to reach the 1985 price again until the year 2000 (when it averaged US\$27.68, which in inflation-adjusted terms was still 36% below its 1985 level).

James Smith is a ‘non-mainstream’ analyst. In 2001 he founded, & he still is CEO of Lakewood, NJ-based Catapult Research that aims to use technical analysis to “isolate the short, intermediate, and long term turning points *in the US stock market* well ahead of the event”. He says that the Saudi ‘market share protection’ strategy is not so much an attempt to undermine US shale oil, or to destabilize the Iranian & Russian economies, as a pre-emptive strike against 5¢/KWh solar power [that he expects to force the major oil companies to take, as early as 2017, huge hits on oil (& gas?) reserves that have become “stranded assets”] - *I too never believed either it was targeting shale oil, for the Saudis know too much about it, & thought their move was politically-, not technologically-, motivated, seeking to rein in Tehran’s & Moscow’s activities in the Middle East. Then a few weeks ago, an article crossed my screen that got me thinking along the same lines as Smith (although not as far as the oil companies’ balance revaluation). And, if this is indeed the Saudis’ real objective, the outcome may well be lower oil prices for longer than the current CW.*

Gansu Province is located in Northern China, bordering on Mongolia, on the old Silk Road & the upper reaches of the Yangtze River. It is home to the US\$17.5BN Gansu Wind Farm project, a cluster of 18 wind farms, construction of which started in 2009. It now has a capacity of 6,000MW, which will triple to 20 GW by 2020 (& is only one of six such facilities planned by Beijing). The currently next largest such facility in the world is the Alta Wind Center in California’s Kern County with a capacity of 1,548MW - *to put this in perspective in 2014 total global wind power capacity was 365GW (up 130% in five-, & 6x in ten-, years, but still only 1.5% of total global power generating capacity) of which China & the US account for 25.0% & 18.5% respectively, with the US, as of 2013 deriving a greater share of its total power generating capacity (6.9%) from wind than China (5.9%), although that likely ended last year as China’s wind power capacity grew at 21% vs. the US’ 2%.*

There is a little-known, relatively new UN Agency going by the acronym IRENA (the International Renewable Energy Agency). It was founded in 2009, is based in Abu Dhabi & headed by a Kenyan, and now has 138 members states, with 33 membership applications pending (so *just about every Tom, Dick & Harry in the global community is-, or wants to become-, a member, with two notable exceptions, Brazil & ..... Canada - perhaps Prime Minister Harper isn’t familiar with the wise counsel of the greatest strategist ever lived, the best part of three millennia ago, China’s Sun Tzu, to “keep your friends close and your enemies closer”*). Last fall it issued a report entitled Rethinking Energy on the subject of the cost of solar energy having declined 80% since 2008, & last month another, more broad-gauged one, Renewable Power Generating Costs that says that, in contrast to what the fossil fuel lobby contends, that “For 1.3BN people worldwide without electricity, renewables are the cheapest source of energy ... (and) offer massive gains on cost and security for islands and other isolated areas reliant on diesel.” (*if so, it may be similar to the cell phone revolution in the developing world where in its capital-scarce economies they provided instantaneous communications without a need for the heavy upfront cost of purchasing & installing copper*

*cable, only possibly even more so because the renewable power sources are indigenous). And the latter report contains a chart suggesting biomass-, geothermal-, & onshore wind are already fully competitive with fossil fuel, with offshore wind & solar getting close to becoming so for electricity-generating purposes, as a 5¢ cost of production per kWh of solar power a reality within the near future - if correct, any recovery in oil prices will make them more so (i.e. competitive).*

Early in January J.C. Penny & Macy's reported 3.7% & 2.7% higher sales<sup>1</sup> during the Holiday Season, followed up almost immediately with store closings & layoffs, 39 stores (4%) & 2,250 employees (1.9%) in the former's-, and 14 stores (1.8%) & 2250 employees (1.3%) in Macy's -, case - *J.C. Penny's store closing concentration on those located in malls highlights an emerging problem in the US retail sector's shopping mall segment; for, while 80% of US malls are "healthy" (i.e. have a vacancy rate < 10%) that's down from 94% in 2006 while the share of those with vacancy rates of 10%-40% has tripled since to 15%). And most of this shrinkage is in J.C. Penny's mid-market segment; the upscale malls are doing better than average, as do the low end ones..*

On February 2<sup>nd</sup> the New York State's Attorney-General's Office accused national retailers of fraudulence in selling dietary supplements. For it had run tests on popular store brands of herbal supplements at WalMart, Walgreen, Target & GNC and found that four out of five contained none of the herbs listed on their labels and/or contained little more than cheap fillers and/or substances that could be harmful to people with allergies - *in Spanish the word 'advertencia' means 'warning'.*

It may come as a surprise to some that US per capita meat consumption actually increased between 1975 & 2012 from 178.9 lbs/year(223 g./day) to 201.1 lbs/250g. What likely is less surprising is that during this period beef consumption declined from 88.2 lbs/110g. to 57.4 lbs/71g. while that of pork increased marginally from 42.9 lbs/53g to 45.9 lbs/57g & that of poultry more than doubled from 47.8 lbs/60g to 97.8 lbs/122g - *This had an potentially environmentally friendly collateral benefit because of the differences in the animals' feed conversion-, & dressed weight-, ratios. For the former (i.e. the ratio of pounds of grain consumed per pound of live weight gain) is about 5 for cattle, 3 for pigs & 2 for poultry (although that for beef is likely overstated since cattle are typically on grass, & consume little, if any, grain for the first half of their body weight at slaughter & this conversion ratio therefore only applies to the time they spend in a feedlot for "finishing" (when they are turned from their natural state of being grass eaters into 'grain burners'<sup>2</sup>), while the dressed weight ratios are 60% for cattle<sup>3</sup>, 70% for hogs & 75% for poultry.*

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<sup>1</sup> Neither seem worth writing home about all that impressive, given a nearly 1% annual population growth-, & a 2% inflation-, rate.

<sup>2</sup> A cattle beast's life in a feedlot is a race against the clock; for it is not genetically engineered to survive on a grain-only diet. Thus when I worked in a meat packing plant in the 1950's, everybody knew when a load of feedlot cattle was going through the beef killing line; for the inspectors would 'condemn' a lot of livers for displaying signs of a bovine condition not unlike alcohol-induced cirrhosis of the liver in humans (due to their unnatural diet in the feedlot).

<sup>3</sup>I The weight of a cattle beast's 'green' hide alone can account for close to 10% of its 'live weight'.

The other day someone tried to tell me that Canadians pay the highest taxes in the world whereas the right wing Washington-based Heritage Foundation provided the following ratios for tax revenues as a % of GDP : Australia - 25.8, South Korea - 26.8, US - 26.9<sup>4</sup>, Japan - 28.3<sup>5</sup>, Switzerland - 29.4, Russia - 29.5, Greece - 30.0<sup>6</sup>, Ireland - 30.8, Canada - 32.2, Poland - 33.8, New Zealand - 34.5, Czech Republic - 36.3, Israel - 36.8, Portugal - 37.0, Spain - 37.3, UK - 39.0, Netherlands - 39.8, Germany - 40.6, Italy - 42.6, Austria - 43.4, Finland & Norway - 43.6, France - 44.6, Sweden - 45.8, Belgium - 46.8 & Denmark - 49.0 - *these numbers should, however, be treated with care; for while Norway has a high tax level, it is the only country in the sample where today's tax payers pay in full for today's government services.*

At last month's Edmonton Financial Analysts' Annual Forecast Dinner, one presenter got a laugh from the audience when he reported a rumour Ottawa was planning to issue three new types of bonds, Conservative ones with no principal, Liberal ones with no maturity (a play on Justin Trudeau's youthful mannerisms & appearance<sup>7</sup>) & NDP ones with no interest.

Growing numbers of North American cities are banning sledding & tobogganing on public property as being "too dangerous". This appears partly a function of bureaucrats' self-serving "nanny-state" mentality & in part an attempt to reduce the risk of being sued by people who got hurt doing so (although that doesn't seem fool proof; for Hamilton, Ontario, that has long banned sledding, lost a \$900,000 law suit brought by a man who injured his spine while doing so because the judge ruled that, while he had been in breaking the law, the city nevertheless ought to have warned him about the existence of the snow-covered ditch that led to his injury). While the justification for this appears to be a report by the Johns Hopkins University-based Center for Injury Research and Policy that, during the 20-year period ended in 2007, 230,000 children were injured while sledding, it's worth noting that in the US **each year** 275,000 kids are injured riding their bikes, 82,000 trampolining & 61,000 skateboarding, and that, according to the publication Pediatrics, in the US 10,000+ kids **each year** are injured or killed by guns<sup>8</sup> &, according to the American Journal of Public Health, kids are 16x more likely to be killed in accidental shootings, 60+% of the time in their own homes, than in other high-income countries. And the real irony is that a major & intractable North American public health problem

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<sup>4</sup> This number should be treated with care in Canada-US comparisons. For not only is healthcare spending in Canada a much smaller percentage of GDP than in the US, in Canada the lion's share thereof is paid for by the taxpayer while in the US it isn't; in fact, if that difference were to be taken into account, public spending in Canada as a percentage of GDP may well be lower than in the US

<sup>5</sup> This too is a bit of a wonky number; for taxes has been paying for < 60% of government spending; the rest is borrowed, a situation that is clearly not sustainable.

<sup>6</sup> This number is equally deceptive; for in Greece, like in Japan, taxes pay for only about half the services provided by government.

<sup>7</sup> Although today he is only one year younger than Prime Minister Harper was when he became leader of the Conservative Party & four years younger than when he became Prime Minister

<sup>8</sup> And whereas Fareed Zakaria recently pointed out 42 people have been killed in terrorist incidents on American soil, incl. Fort Hood & the Boston Marathon bombing, 32,000 Americans are killed each year by guns & another 31,000 in automobile accidents (while there has been a great to do about the seventeen people killed in the Charlie Hebdo incidents, on a global basis far greater numbers are killed in terrorist incidents elsewhere in the world, who are, however, unfortunate as it is for them, far away and black and/or Muslim, or both)

today is child obesity, one solution to which is for kids to spend more time outdoors doing things; as one columnist quite aptly put it, "We are creating people ... good for only one thing : texting with a helmet on".

In 2010 Canada had the highest proportion of post-secondary graduates (51%) in the 25 to 64 year age group of all members of the OECD & G-7.

Canada's Foreign Affairs Minister John Baird, Prime Minister Harper's favorite pit bull but nevertheless well-liked by MPs on both sides of the aisle, surprised many on February 3<sup>rd</sup> (incl. apparently the Prime Minister himself, when he announced that, after two decades in politics, first in Ontario & since 2006 in Ottawa, he was retiring from politics, despite having been renominated last year by acclamation to run in the next election in his Ottawa constituency - *whatever else motivated him, this was a sensible financial decision on his part; for not only is he at the peak of his political career & of his alternate employment marketability, but by not running again his largely non-contributory pension \$170,000 or so fully-indexed annual pension (for which MPs contributed one dollar for every six taxpayer dollars) will kick in at age 55 while under the new rules adopted in 2012 he would have had to wait until age 65 if he had run again. Meanwhile, 15 of the 17 Alberta MLAs who have so far have said they won't run in the next election will collectively be 'entitled' to "transition payments" ranging from \$131,000 & \$873,000 depending on income & length of service. Coming at a time the Alberta government faces a revenue shortfall in the next fiscal year that it says will be \$7BN (but could go as high as \$10BN), i.e. 17%, or more, of last year's budget, this raised more than a few eyebrows, despite Premier Prentice's claim that his hands are tied (by comparison a back of the envelope calculation suggests that using a 5% discount rate & an 80 year life expectancy, the PV of Minister Baird's pension entitlement is in the \$1.25+MM range).*

On January 12<sup>th</sup> Ottawa said NAFTA's environmental watchdog, the Commission for Environmental Cooperation, had no right to examine Canada's, & Alberta's, record in handling the environmental impact of the 176 sq. kms. of tailings ponds in the oilsands region of Alberta - *while it may be justified doing so since there is a case before the courts on tailing ponds pollution & the Commission's terms of reference prohibit it from investigating any case before the courts, this action harms Canada's image abroad & allows oilsands critics to argue a lack of transparency & 'where there is smoke there has to be fire somewhere' (especially so since, according to the CBC, this is the third time within a year it has taken this position). And, if indeed their track record in this matter would have been acceptable to all but the most jaundiced of eyes, a better policy option might have been to invite an examination once the court case was out of the way.*

The World Bank has a black list of 600+ companies worldwide that, due their involvement in corruption, it won't do business with. The bad news is that Canada heads the list with a total of 117, followed by the US (46), Indonesia (43) & Britain (40), while the 'good news' is that all but two involve Montreal-based SNC Lavalin & its subsidiaries - *with \$8BN in revenues & 45,000+ staff it is Canada's biggest engineering & construction company & one of the Top Five global design firms*<sup>9</sup>

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<sup>9</sup> While the World Bank's judgment is based on a project in Bangladesh, the Company has also been accused of nefarious behaviour in Libya & Algeria. Last year its former CEO was arrested on charges of corruption abroad & subsequently re-arrested on similar charges in connection with a major hospital contract in Montreal, while his successor tried to downplay the whole mess by telling the press all projects obtained through corruption had been "commercial flops".

People generally know that China is home to close to 20% of the world's human population but few realize the same applies to 50+% of the world's nearly 1BN domestic pigs<sup>10 11</sup>. Pork is the meat of choice in China to the point where, while the total food component of China's CPI is over 30%, pork accounts for a one-third thereof. Between 1975 & 2012 annual per capita pork consumption in China skyrocketed from 8 kg (22 grams/day) to 39 kg (107 grams/day)<sup>12</sup>. And this huge growth in the demand has changed the way pork is produced in China : whereas as recently as 2001 91% of it was produced on 'backyard farms', 7% in mid-sized 'Specialized Pig Household' operations & just 2% in large scale commercial/industrial 'factories', today those ratios are 52%, 35% & 13%. And this has had an unintended environmental consequence; for whereas pigs raised on backyard farms were fed homegrown feed & their manure was used as fertilizer, in commercial pig farming the feed is of commercially manufactured, and laden with antibiotics & heavy metal trace elements that leach into the soil & whence into the groundwater, & manure is a nuisance. So farm waste is now a greater environmental hazard than industrial waste, accounting for 42% of all nitrogen-, & 90% of all phosphorus-, runoff into the South China Sea (never mind the impact of things like the 16,000 pig carcasses found last year in one of the country's major rivers).

The then Greek Finance Minister, George Papaconstantinou, said on November 8<sup>th</sup>, 2010 "Greece is not Ireland" - *Events proved him right, albeit not in the way he implied; for since then the Greek economy had a string of 13 consecutive quarters of negative GDP growth at rates as low as minus 10+% annualized & only in the Second Quarter of 2014 resumed modest real growth, whereas Ireland has had only three negative quarters, with the worst being the First Quarter of 2013 when it experienced negative growth of 3.6%, while in the other two (3Q/11 & 4Q/13) it was in negative territory by just a smidgen, & now, with growth in the 4% range Ireland is a standout in the EU.*

After his participation in the January 11<sup>th</sup> solidarity parade in Paris Netanyahu urged French Jews to "come home" (i.e. practice "Aliya", the movement of Jews from the diaspora to Israel). And there seems to be a growing interest in this; for in the Hebrew year 5774 (that ended at sunset last September 24<sup>th</sup>), there were 4,500 French Jews (up 70% YoY) among the record 24,000 Jews who came to live in Israel. And, according to the Jewish Agency's Chairman Natan Sharansky, this was the first year since the founding of the state of Israel that the number of Jews coming to live in Israel from countries in the free world had exceeded those "fleeing countries in distress". But this is not a big deal for France<sup>13</sup> whose total Jewish population numbers about 500,000 (50,000 regular synagogue goers, 150,000 "High Holiday Jews", who go there only on special occasions, & 300,000 Jews supposedly in the process of being assimilated). And among the French aliya practitioners, there is a phenomenon called "Boeing

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<sup>10</sup> The balance of the world's pig population lives in the US (10%), Germany (5.3%), Spain (3.4%), Brazil 3.1%, Russia (2%), Vietnam (2%) and Canada (1.7%).

<sup>11</sup> As of last September there were 481MM pigs in China, 10% of them sows (breeding females).

<sup>12</sup> In the US pork consumption growth during the period was flat at about 65 grams/day

<sup>13</sup> This highlights a problem France is facing, namely that these 4,500 French Jews are quite typical of the 250,000 emigrants from France each year who are higher skilled/better educated than the 250,000 immigrants that come to France each year, many of them from North Africa, with fewer skills & less education (& who, once there, have a higher fertility rate than the locals)

Aliya”, when a family’s breadwinner commutes to France where wages & salaries are on average 30%-, & for professional people as much as 80%-, higher than in Israel (& also because it is said to be devilishly hard to get their foreign professional training & diplomas recognized in Israel). According to Prof. Sergio DellaPergola, a demographer at Jerusalem’s Hebrew University<sup>14</sup>, 60% of all new Israelis for several years after their arrival still get the bulk of their income from abroad & while in years gone by many Jews in the diaspora came to Israel to retire, today 60% is under the age of 35. Nevertheless, it should never be forgotten that most , if not all, of these new immigrants have dual citizenship that would enable them to leave again if the experience disappointed them and/or the political situation in the Middle East warranted getting out while the getting out was still good.

Putin has two daughters, Maria (born in 1985) & Katerina (born one year later). Both attended their father’s alma mater, the St. Petersburg State University, where Maria studied biology & Katerina Japanese & Oriental Studies. According to the Dutch press Maria lived in Holland with her Dutch boyfriend until the uproar over the downing of Malaysian Airlines’ Flight 17, in which many Dutch citizens died, prompted her to flee. And both her-, & her sister’s-, names are on a list drawn up by former Deputy Prime Minister Boris Nemtsov of children of top officials who had studied, worked or lived abroad (*and/or were still doing so?*) - *living in Moscow does not seem to have much to recommend itself to the children of top officials & oligarchs.*

The Falkland Islands (known as the Malvinas in Argentina) & its current 3,000+ population have ‘belonged’ to Britain since the 1830’s, although Argentines have long argued their ‘proximity’ to its coast (300+ miles/500kms) makes them rightfully theirs. In 1982 the two countries fought a war over them. In 2009 Argentina lodged a claim with the UN for a vast expanse of the South Atlantic, as far out to sea as 2000 kms/1250 miles, that included the Falklands. In 2010 the Argentinian government was more than a little aggravated when a London-listed company, Desire Petroleum<sup>15</sup>, had the Ocean Garden, a semi-submersible drilling rig, towed to the islands from Scotland to look for the oil supposedly underlying their waters; so it is not surprising that the same year Russia made its first-ever sale of military hardware to Argentina in the form of two M1 assault helicopters. Then in March 2013 the Falklanders voted 1,513 - 3 to remain a ‘British overseas territory’. And now, according to the Daily Express, Russia has offered Argentina twelve SU-24 all-weather attack aircraft in exchange for beef & wheat (???) which, according to the paper, worries the Defense Ministry since they will be delivered long before its new aircraft carrier, the 65,000 tonne HMS Queen Elizabeth, & its complement of F-35B jet fighters, will be combat ready in 2020 - *this could be another global hot spot in the making if, with the Argentine government, seeking to mobilize domestic support against a foreign enemy, were willing to gamble that whoever is in charge in Britain when launched the Malvinas War 2.0 wouldn’t have the intestinal fortitude of the ‘Iron Lady’ to wage a fight over them.*

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<sup>14</sup> The world’s leading authority on the demography of the world’s Jewish population, he told the Jerusalem Post in November 2010 that “Jews - as defined by the government - now number less than half the total population between the Jordan River and the Mediterranean”

<sup>15</sup> Taken over, in October 2013, by a larger, financially stronger company, Falklands Oil & Gas.

**GLEANINGS II - 600SP**  
**Monday February 9<sup>th</sup>, 2015**

**BANKRUPTING THE NEXT GENERATION (The Financialist<sup>16</sup>)**

- Boston University Economics Professor Lawrence J. Kotlikof (age 63) is among those who believe that borrowing to fund current government services & downloading the cost of our living beyond our means onto our children & grandchildren, is immoral & *unconscionable*.
- He recently talked with us about what he views as our crimes against posterity, the deceptive accounting practices of government, & the folly of our financial future, and along the way made a number of points, incl. :
  - we are waging a war against our children by funding ever-increasing consumption by older people at the expense of future generations & have turned retirement into a full-time, long-term occupation (whereas in 1960 the average 80 year-old, *of whom there were proportionately far fewer*, consumed one-third **less** of the nation's resources than the average 30 year-old, today he/she accounts for 50% **more**<sup>17</sup>);
  - the first thing we must do is to acknowledge how bad the situation is. When individuals & corporations cannot pay their bills, they go bankrupt. But countries/*governments* can be just as bankrupt & still stall off the evil day by printing more money as long as other countries will accept it. The US is flat broke even though we don't realize it (*or simply refuse to accept that reality?*) & the government is fudging the issue with deceptive accounting worse than Bernie Madoff's or Enron's;
  - The real problem is the government's off-balance sheet debt; if we were to add to it our Social Security & healthcare commitments, we're worse off than Greece or Spain (*what about Japan?*). Total commitments exceed by US\$202TR (i.e. 12x our GDP) the funding that will be available to meet them. And we are not alone, for the pension schemes of most industrial countries are pyramid schemes & will collapse like a house of cards once the younger generation wakes up to the reality of what has been done to them & refuse to pay the bill (*or are unable to do so*).

*Kotlikof's field is 'generational economics', i.e. the study of how one generation does, or does not, pass its wealth to the next one. He has been pushing for passage by Congress of The Inform Act to alert Americans to the precarious financial status of their country, an effort endorsed by over 1,000 economists of all political stripes, incl. 15 Nobel Prize winners in Economics. In 2013 he told an interviewer that "Eventually somebody recognizes this (i.e. that the US is broke) and starts dumping the bonds, and interest rates go up, and inflation takes off, and we're off to the races". In his spare time he is President of a software company that markets personal finance software, incl., rather ironically, a program that helps people figure out how best to maximize their benefits from various social security programs.*

**GOUGING TOMORROW'S TAX PAYERS FOR TODAY'S SPENDING**  
**(Jean-François Wen & Charles Lamman)**

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<sup>16</sup> A digital current affairs magazine sponsored by Crédit Suisse.

<sup>17</sup> Those who wonder about the source of this statistic should google the 2012 Power Point presentation by Ronald Lee of the University of California Berkeley & Gretchen Donehower.

- Ontarians hear horror stories about their government's growing debt; since the recession it has grown from 28%-, to 40%-, of its GDP. All told the Province's debt now sits at \$287BN, up from \$170BN seven years ago (*i.e. it has grown at an annual compound growth rate of 7.7%*). And a new study by the Fraser Institute found this was primarily driven by operating deficits, rather than capital investments; in other words, Ontario is going deeper in debt to pay for spending that benefits the current generation of tax(*non*)payers that will have to be paid for by future generations.

*The sad truth of this is that this is the rule, rather than the exception, in First World countries (Wen teaches at the University of Calgary & Lamman is Associate Director of Tax & Fiscal Policy at the Fraser Institute).*

### **OKLAHOMA WORRIES OVER SWARM OF EARTHQUAKES AND CONNECTION TO OIL INDUSTRY (Washington Post, Lori Montgomery)**

- Historically the state averaged two earthquakes a year measuring at least 3.0 on the Richter scale (i.e. with the strength 0.001% of a 6.0 one). But last year there were 567 statewide (most of them in a corridor from the state capital, Oklahoma City, Northeast to the Kansas border), last July Payne County, home to Oklahoma State University had 33, & on January 27<sup>th</sup> the town of Guthrie (pop. 10,191) had three in one day. Scientists blame the oil & gas industry's deep wastewater disposal wells (of which there are 3,300 active in the state), into which it pumps 2BN bbls of toxic waste water each year. Seismologists warn small earthquake 'swarms' can lead to more dangerous ones & the US Geological Survey has found a link between the (*fracking-driven*) oil & gas boom & the uptick in seismic activity in Texas, Colorado, Arkansas & Ohio, as well as Oklahoma.
- While the State has been reluctant to crack down on an industry that accounts for one-third of its economy & 20% of its jobs, pressure has been building for it to adopt a more aggressive policy stance; so last September Mary Fallin, the Republican Governor, named a 'coordinating council'. And the Oklahoma Corporation Commission, an elected three-member panel that regulates the industry, imposed new restrictions on *disposal* wells in seismically sensitive areas.

*As usual the industry tries to denigrate any questioners of the way it conducts its business, facilitated in this instance by the increased seismic activity often not occurring conveniently close to a well. But it would seem that even a nine year-old could understand that the oil companies taking 120MM bbls of fluid **out of** the ground each year & putting 16x that much **back in** cannot help but create problems. And these numbers raise an interesting point : if all the waste water pumped underground were to be due to fracking, it would have a 16 : 1 ratio of waste water to oil recovery, while in the much-maligned oilsands it can be as low as 1 : 1.*

### **WHAT'S BEHIND THE EARTHQUAKES IN DALLAS? (StateImpact<sup>18</sup>, Mose Buchele)**

- Earthquakes were almost unheard of in Dallas before 2008; since then there have been 'swarms' of them. The latest one, of magnitude 3.5, on January 6<sup>th</sup> was followed an hour later by a similar one in Snyder, West Texas, where there have been a lot of quakes lately (while in East Texas towns like Timpson have experienced swarms as strong as 4.9 on the Richter scale). And the Railroad Commission, the State regulator of the oil &

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A cooperative effort by radio stations KUT Dallas & KUHF Houston that has two reporters traveling the state to report on energy industry issues affecting its listeners.



gas industry, has gone as far as hiring a seismologist (whose job, however, is not to study the quakes himself, but rather to put third parties in touch with those who do).

*The Simple Simon thing to do is to just blame fracking. But the real culprit is “irresponsible” industry business practices that, like its operations in the Alberta oilsands, singlemindedly seek to ‘maximize’ short-term-, rather than holistically “optimize” longer-term-, profitability, and that in the process create more public pressure for ‘better practices’ and/or more government regulation, that are not in the industry’s best interests). And in any resultant improved technology-driven shift in industry practices shale oil will have an edge over oilsands since its assets have a much lower upfront cost, & shorter payback period, than the oilsands (just as mice, or rabbits, that can give birth to several litters of babies a year can adapt much quicker to a changing environment than elephants that may have a single baby once every three years).*

### **CALIFORNIA ENACTS STRICT PESTICIDE RULES TO PROTECT FARM WORKERS**

**(AP, Scott Smith)**

- New restrictions surpassing those of the EPA were announced by the state on January 14<sup>th</sup> on the use of chloropicrin, a pesticide injected into the soil before crops like strawberries & tomatoes are planted, and also used in almond orchards. Among others, they reduce the acreage on which it can be applied on any given day by 75%, and doubles the distance between the fields on which it is used & the nearest human activity. For in recent years it has been blamed for people suffering from irritated eyes, coughing fits & headaches. And since almond-, & grape-, growers use it only once every two or three decades (when they replant), strawberry growers use it every year & will therefore be hardest hit financially. An official said these new regulations are needed since farms are now often close to people, & that, while farmers will pass their added cost on to consumers, it was worth it since “if we’re going to use these tools, we’ve got to ensure that they’re used as safely as possible.”
- Chloropicrin is also widely used by Canadian farmers but in its latest update on it, in 2012, Health Canada noted that its standards are consistent with those of the EPA (*i.e. they are less stringent than those California has now adopted*).

*Over a decade ago the producer of the movie Food Inc. noted in an interview that one segment he had wanted to include in it, but wasn’t allowed to by the lawyers, had been one in the California strawberry fields where the workers wore a type of space suit to avoid contact with the hazardous chemicals they worked with. California produces 88% of the strawberries produced in the US & is a US\$2.3BN industry (which sounds like a lot until one realizes this represents only 0.12% of California’s GDP). One intended consequence of this move for consumers, however, especially now given the recent strength of the US\$, may be that this will result in more strawberries on supermarket shelves imported from countries where controls are laxer than those of the EPA.*

### **INVESTMENT RICHES BUILT ON SUBPRIME CAR LOANS TO THE POOR**

**(NYT, Michael Corkery)**

- Last September Santander Consumer USA came to market with a US\$1BN bond issue backed by 84,000 car loans, some tranches of which were triple A-rated but offered yields over 2x that on UST paper of similar maturity & demand was so strong it was increased to 1.35BN (still leaving US\$1+BN in unsatisfied demand). This is driven by a country-wide boom in lending to Americans with impaired credit who need (*or want?*) a car, whose loans are ‘bundled’ for sale to *yield-hungry* institutional investors (like

subprime mortgages a decade ago), the volume of which outstanding has tripled to US\$20+BN since 2010. But there are growing concerns among regulators, & even the rating agencies, that this is prompting more falsification of income & employment information; thus one former administrative assistant at the New York City Police Department has not made a single payment on the US\$30,000 11.89% loan that, despite her having no driver's license & no income, and being on food stamps, enabled her to buy her daughter a US\$30,000 2011 BMW 328xi (facts she said the salesperson at the dealership where she bought the car was fully aware of) - *it boggles the imagination that such bonds can be rated triple-A, on a par with US corporations, like ExxonMobil, Johnson & Johnson, and Microsoft.*

*Sounds familiar? Fortunately this time the amount involved is 'small enough' as to be unlikely to pose a systemic risk. But this doesn't mean some investors & innocent bystanders aren't going to get hurt (which the former fully deserve for being complacent & not doing due diligence). More proof that Wall Street & the rating agencies haven't taken the lesson of the 2008 debacle to heart, & of the validity of the age-old saying "Plus ça change, plus c'est la même chose".*

### **SAUDI SINGLE WOMEN CHALLENGE TRADITION IN LOVE & MARRIAGE** **(AP, Aya Batrawi)**

- Whereas traditionally Saudi women were married in their early 20's, growing numbers today choose to remain single through their 20's & into their 30's as they pursue other (*often education-related*) ambitions<sup>19</sup>. This upsets the country's ultra-conservatives who deem it an affront to a society in which tribal codes & a rigid interpretation of the Koran have long dictated the terms of marriage. And their growing number has alarmed clerics who have responded by pushing for early marriage, by preaching about the evil consequences of 'spinsterhood' (such as sex outside wedlock) & by raising an outcry against "the dangerous phenomenon of life-long spinsterhood ... (*that*) endangers the community as a whole."

*Government statistics show there are 3+MM women in their 30's, of whom as many as 45% may be single, in the Saudi population<sup>20</sup>. A report by ESCWA (the Economic and Social Commission for West Asia) contained some interesting info bytes. Between 1980 & 1985 and 2005 & 2010 the Saudi fertility rate declined from 7.02 to 3.03 & the annual rate of population growth from 5.98% to 1.98%. The country has a unusual distribution between the sexes; for in 2010 there were 129.7% more men than women (up from 115.4% in 1980) despite the fact the infant mortality rate for girls is lower than for boys (this is likely a function of the presence in the country of 9MM non-Saudis, the lion's share of whom are male). And the country faces a very fast aging process over the next three decades; for, while the 65+ age cohort now accounts for 3% of the population, this will increase six-fold to 18+% by 2050.*

### **HOUTHIS ATTEMPTING TO CONTROL YEMEN'S BAB EL-MANDEB STRAIT** **(Ashark al-Awsat)**

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<sup>19</sup> Women now out number men in the country's universities and there tens of thousands of women among the 150,000+ Saudis studying abroad.

<sup>20</sup> This number differs from the more commonly-used 29MM Saudi Arabia population number because it does not include the 9MM non-Saudis resident in the country.

- Yemeni military sources claim the recent advances by the country's Houthis movement are part of a plan by Iran to gain control of the strategic Bab El-Mandeb Strait off Yemen's West coast, one of the world's most important maritime corridors & that, if Iran via the Houthis can add control of this waterway to that of the Strait of Hormuz, it will have a strategic maritime advantage in the region.

*The Houthis, who practice a form of Shia Islam, control the Northwest of the country, while the Sunnis dominate much of the rest of it. To talk about them possibly "controlling" the Strait is even more nonsensical than Iran "controlling" the Strait of Hormuz; for the US Fifth Fleet controls both because of their importance to the flow of global trade. This is another 'proxy war', in this case between Iran-backed Houthis & Saudi Arabia-backed Sunnis (some of them linked to al-Qaeda). For Saudi Arabia has a 15% Shiite minority in its midst (most of whom live in its oil-rich Eastern Province) & is so fearful of events in now Shiite-ruled Iraq that it is building a 600 mile wall along their common border, and the last thing it wants, or needs, is a potential Shiite threat on its Southern border to go along with the Alawite Shia presence to its North (for the geographically challenged, the Strait of Bab El-Mandeb connects the Red Sea, & thus the vital Suez Canal trade route, with the Gulf of Aden & the Indian Ocean).*

### **OFFICE PUTS CHIPS UNDER STAFF'S SKIN (BBC)**

- Epicenter is a new hitech office building in Stockholm, Sweden that will eventually house 700 workers & calls itself a "members' work place collective & innovative hub" that promises to pioneer new ways of working. It is now inserting chips under workers' skins, to replace access cards that must be swiped, which it says will have many other uses such as paying for meals in the building's cafeteria.

*This is truly scary. A dictator's dream. An insidious way to keep track of people on a 7/24/365 basis. Anyone who prizes his/her privacy can put his/her workplace access card, or business cell phone, in a drawer when getting home from work, but there is no escaping a chip under one's skin. It reminds me of when then Prime Minister Pearson in the mid-1960's assured the House of Commons the SIN (Social Security Number) in the CPP legislation he was introducing would be used solely for pension benefit accumulation purposes (which proved a joke).*

### **WILD BEAVERS SEEN IN ENGLAND FOR THE FIRST TIME IN CENTURIES (The Guardian)**

- Beavers were once commonplace in Europe, incl. the UK, but were hunted to extinction in the 16<sup>th</sup> century for their pelts (to make hats), medicinal value & meat (*thus setting the stage for the development of Canada as a new source of beaver pelts*). In 2009 three beaver families were released in Scotland near the Sound of Jura on Scotland's Southwest coast. Then, a year ago, a beaver family was found, 300+ miles away as the crow flies & a great deal further on foot, on the river Otter in Devon, Southwest England, & last summer they were found to be a "breeding family" when three babies surfaced.

*While in 2011 a pair of beavers was placed in a secure, fenced-in area in Northwest Devon, they remain there & are not believed to have been the source of the Otter River family. While there initially was talk about capturing the latter & relocating them to a zoo, that idea seems to have fallen by the wayside. For beavers are now deemed a "keystone species" whose hydrological engineering helps to create an environment for a host of other species & to slow down rain water run-off, the need for which has been given more prominence by the recent wet weather & concomitant floods. This is interesting on two counts. One because it seems to prove once again that Nature, if given a chance, can undo harm done by Man (although not as*

*conclusively as the rediscovery of the occasional sturgeon in the river Thames after having been extinct there since the days of Queen Elizabeth I, four centuries earlier). And, perhaps equally, if not more, important it suggests a nascent public interest in living with, rather than seeking to control, Nature.*

### **INDIA NEEDS BETTER COORDINATION BETWEEN FISCAL AND MONETARY POLICIES (Nikkei Asia Review, Sarika Rachuri)**

- The RBI's January 15<sup>th</sup> 0.25% rate cut, two weeks ahead of a policy meeting surprised the market in a good way; for after having been criticized for 20 months for not cutting rates, the CW now is that it has entered a cycle of moderate easing as inflation eases. This is a lynchpin of Prime Minister Modi's master plan (aka 'Modinomics') to take the economic growth rate beyond 6% & keep the fiscal & monetary policies in lockstep,
- In the 1980's large deficits led to key interest rates being kept low & not determined by market forces. The economic reforms of the early 90's involved greater fiscal discipline & more market-determined interest rates, with the RBI given more elbow room which, together with the greater fiscal discipline, enabled it to keep the inflation rate at 4% despite the inflationary impact of surging capital inflows. But the subprime crisis, & the resultant aggressive global fiscal stimulus, caused inflation to hit 12% in the years 2010 - 2012 & the RBI's repo rate to be hiked 20x, despite great pressure not to; nevertheless, by 2013 inflation was still at the double digit level while GDP growth had declined to 5%.
- Prime Minister Modi has promised more growth & stable inflation. He has been helped by lower oil prices that have eased inflationary pressures & improved the balance of payments. The government appears on track to achieve its 4.1% of GDP fiscal deficit target & to have more fiscal flexibility to invest in the country's notoriously poor infrastructure. And if the Budget due next were to demonstrate that the government expects to achieve its deficit target & grow revenues, RBI Governor Raghuram Rajan will feel more comfortable cutting rates again before the next policy meeting in April. And with fiscal and monetary policy better coordinated, faster growth cannot help but ensue.

*Fuel subsidies at one time accounted for 25% of India's budget. While the previous government had started cutting them cautiously & the Modi government's first Budget, last July, to many people's surprise and/or disappointment, didn't touch them, on October 17<sup>th</sup> he took advantage of the drastic decline in crude oil prices (to US\$86) to slash them (this is where greater "fiscal flexibility" came from) - the writer teaches economics at the IBS Business School in Mumbai.*

### **WHY EUROPE NO LONGER FEARS THE RUSSIAN GAS MAN AS MUCH (The Economist)**

- Once Russia's gas exports to Europe were Putin's trump foreign policy card, as witnessed by the shock waves he created in 2006, & again in 2009, when he cut supplies to Ukraine, prompting a heating crisis & factory closings in Hungary & Slovakia, and forcing Germany to scramble for alternate sources of supply. This led to the EU deciding his grip on gas supplies to Europe gave him too much political leverage, & to make major changes. It has liberalized the gas market, limited the extent to which Russian entities can own and/or control pipelines in EU member countries, & made its internal gas distribution network more efficient, with more & better connectivity with countries most dependent on Russian gas. Lithuania, once 100% dependent on Russian gas, built an LNG liquifaction plant that now makes it totally independent thereof, & the deal the EU recently brokered between Moscow & Kiev will keep Russian gas flowing for at least the First Quarter. Finally, Europe has been helped this year by a relatively mild winter that reduced the need for drawing gas from storage (so that the amount there is

now greater than usual for this time of the year). And it has so far kept its biggest weapon against Russia *in this natural gas “war”* on ice, the result of the investigation into discriminatory pricing-, & other market coercion-, practices going back a decade that could seriously affect the way Gazprom can do business in the EU.

*Putin overplayed his hand & didn't fully appreciate that 'action brings reaction', in this case that in a free market environment proving oneself an unreliable supplier has consequences.*

### **SCHLUMBERGER BETS ON RUSSIAN OIL (FP, Stephen Bierman)**

- Schlumberger is the world's biggest oilfield services provider & LSE-listed Eurasia Drilling Russia's largest drilling company (also active in the Caspian Sea & Iraq). On January 19<sup>th</sup> the former paid US\$1.7BN for a 46.45% stake in the latter, *an 89% premium over the January 15<sup>th</sup> closing price*, with a three year option to buy the rest.
- Schlumberger has been active in Russia for two decades & is no stranger to Eurasia's controlling shareholder, Alexander Djaparidze. For in 2003 he sold it the oilfield services company PetroAlliance, with the proceeds of which he bought, in 2004, OAO Lukoil's drilling assets to found Eurasia, and since 2011 the two companies have had a 'strategic alliance' (he is said to be selling in the belief oil will not again hit US\$100 anytime soon). This deal requires taking the Company private by extending the same US\$22 price to all shareholders & delisting it. An extraordinary shareholders' meeting is scheduled for February 16<sup>th</sup> &, if approved, its shares will be delisted one week later.

*Schlumberger is being opportunistic; for Eurasia shares hit an all-time high US\$45 on January 10<sup>th</sup> last year. And it may be betting that the lower oil price will prompt an uptick in drilling in Russia (while in North America it may slow down in response to it). And contrary to the CW his reason for selling may be that Djaparidze wants to move his assets beyond Moscow's grasp. But with Eurasia's shares continuing to trade on the LSE at prices in the US\$19 range, there appears to be skepticism in the market the deal will go through.*

### **BODIES OF FRENCH GUNMEN LIE, UNBURIED, AND, IT APPEARS, MOSTLY UNWANTED (NYT, Maia de la Baume)**

- Despite French law stipulating bodies must be buried *or cremated* no later than six days after their death, the bodies of the brothers Kouachi & of Amedy Coulibaly (who were killed in the Charlie Hebdo & kosher supermarket terrorist events in Paris) lie in a police morgue with no one, incl. the public prosecutor, having made any move to claim them. Under French law if the disposal of a body is not specified in a will, families are expected to make a formal request for burial to the mayor of the city where the deceased had lived or died for interment in a family plot, graveyard or ancestral land. In the past the French state has offered Muslim burials even to terrorists, in 2013 in the US one of the Boston bombers was buried, eventually, in a small Muslim cemetery in Virginia & in 2011, after Osama bin Laden had been killed by US Special Forces, he was buried at sea (to avoid his grave site becoming a shrine) but only after Muslim burial rites.

*Mayors all over France are united in not wanting them buried in their city or town. While the disposal of bin Laden's body at sea was criticized as a violation of sharia law, & while one French legal expert opined that, because they are French citizens, the authorities have a duty to find a burial place for the Charlie Hebdo terrorists since "there is a right to be buried for every person who dies", should terrorists be given the courtesy of a proper burial or might perhaps the*

*prospect of being cremated & having their ashes spread at sea discourage some would-be Islamist terrorists?*